

STATEMENT OF PAUL A. VOLCKER
BEFORE THE
SENATE GOVERNMENTAL AFFAIRS SUBCOMMITTEE ON
FINANCIAL MANAGEMENT, THE BUDGET AND INTERNATIONAL SECURITY
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Mr. Chairman and Members of the Committee

I have been asked to appear here today because of my responsibilities as Chairman of the Trustees of the International Accounting Standards Committee Foundation. We Trustees are charged with oversight responsibilities and appointing members of the International Accounting Standards Board (IASB), the counterpart of the US FASB.

The essential point of the IASC Foundation is to encourage common "high quality" accounting standards right around the world. Success will require a high degree of convergence between the US GAAP and international standards. Efforts to achieve that result -- hopefully in time full commonality -- are well underway.

One known obstacle to that end has become even more evident in recent months. We are not dealing simply with "technical" or "professional" issues, difficult as they are. Accounting standards need to be sensitive to legitimate business needs and practices. Both the FASB and the IASB have elaborate consultative and "due process" practices to understand and help resolve practical operational questions. It is impossible, however, to satisfy the perceived particular preferences and interests of every business, or of groups of businesses, and retain any hope of accounting consistency and discipline.

As members of Congress are well aware, that simple truth does not discourage businesses that perceive adverse consequences of a proposed accounting standard from appealing decisions to political authorities. Significantly, that has been the case in both Europe and the United States in recent months. Some European banks and insurance companies have been vigorously protesting portions of two important international standards, IAS 32 and IAS 39, that, pending European Union approval, will become binding law throughout the Union next year. Similar standards that have required accounting for financial

instruments (included derivatives) are already an accepted part of US GAAP, so European approval would be a key step toward achieving convergence.

At the same time, some US businesses are vigorously urging you in the Congress to prevent, by law, expensing of employee stock options, as FASB now proposes. Such a requirement is already agreed by the IASB, and will in all likelihood be accepted and enforced in the European Union and many other countries next year. Failure of FASB to adopt a similar approach will inevitably set back the work toward convergence.

We thus have a clear illustration, on both sides of the Atlantic, of why so much emphasis has been placed on the need for professional independence in the decision-making processes of both FASB and IASB. Plainly, sheer political pressures in a national context will not, and cannot, lead to either consistency or quality. The net result of politicized national decisions would be to weaken, perhaps irreparably, one of the foundation stones of effective accounting practices in a rapidly globalizing world economy.

Every company operating internationally, investors and analysts generally, and regulators and governments, share strong interest in common accounting standards in major countries. In addition to the European Union itself, most other countries have signaled their intent to adopt international standards. But piecemeal rejection of key standards -- like IAS 39 in Europe or expensing employee stock options in the United States -- would clearly erode the basic purpose of creating a "level playing field", confusing and fragmenting markets and investors.

There is a broad area of agreement among accountants and others that employee stock options are an expense and should be so recorded in financial statements. I also recognize there has been controversy and uncertainty as to how to measure that expense with reasonable precision and consistency.

The logic of both the US and international approach is to delegate that difficult decision to the professional standard setters. As a Trustee of the IASC Foundation, it is the responsibility of my colleagues and me to ensure that the decision of the IASB is taken with due care, only

after extensive consultation, and using the Board's best professional judgment. The Board itself, I should emphasize, includes not only professional accountants but also persons experienced in the practical work of preparing and analyzing financial reports.

I trust that legislators and other policy-makers both in the United States and Europe will respect that carefully conceived process. To do otherwise will surely undercut all that is being achieved toward convergence in accounting standards around the world, a key ingredient of a well functioning system of international finance.

I suggest that, before acting, Senators and Congressmen ask themselves two simple questions:

"Do I really want to substitute my judgment on an important but highly technical accounting principle for the collective judgment of a body carefully constructed to assure professional integrity, relevant experience, and independence from parochial and political pressures?"

"Have I taken into account the adverse impact of overruling FASB on the carefully constructed effort to meet the need, in a world of globalized finance, for a common set of international accounting standards?"